



MAY 6 1975

S-0047/DR

MEMORANDUM FOR THE DEPUTY SECRETARY OF DEFENSE

SUBJECT: Soviet Costing (U) - ACTION MEMORANDUM

1. (C) Attached is a report indicating that CIA has probably been misjudging overall Soviet military expenditures by almost one hundred percent.

2. (C) This indication is, for me, only a capstone to other indications of error of this magnitude. I have attached a previous memo in which I made that case.

3. (S) I agree with the note of caution on page 2 of the CIA memo to the SecDef. We should, for the time being, resist the temptation to use this information for policy purposes, at least on a public scale or in a manner likely to cause it to become public.

X1 Those with the bureaucratic interest in maintaining that the old system was not this inaccurate are already trying to make the case that [redacted] information is suspect.  
X1 Some time will be required [redacted]

X1 [redacted] hold outs for the old costing methodology (a lot of GS ratings are on the line in the matter).

25X1

X1 4. (C) I think it would be valuable to you to have a chat with my man, Mr. Michaud [redacted]

X1 [redacted] I have arranged for Mr. Marshall, myself, and Michaud to talk to the SecDef.

25X1

(Signed)  
DANIEL O. GRAHAM, LTG, USA

3 Enclosures

DANIEL O. GRAHAM

1. CIA memo to SecDef, Lieutenant General, USA  
dtd 2 May 1975 (S)-Y-1273 Director

2. DIA memo, Soviet Defense Burden, dtd  
7 Jan 75 (S)

3. DIA memo, Costing,  
dtd 1 Feb 75 (C)

Classified by [redacted] DIA  
SUBJECT TO AUTOMATIC DECLASSIFICATION  
SCHEDULE ON 31 DECEMBER 1985  
AUTOMATICALLY DECLASSIFIED AT TWO  
YEAR INTERVALS  
DECLASSIFIED ON 31 DECEMBER 1987

DIA review(s) completed.

SENSITIVE

130%

25X1

Approved For Release 2004/06/29 : CIA-RDP83M00171R001100010013-1

**Next 1 Page(s) In Document Exempt**

Approved For Release 2004/06/29 : CIA-RDP83M00171R001100010013-1



## DEFENSE INTELLIGENCE AGENCY

Approved For Release 2004/06/29 : CIA-RDP83M00171R001100010013-1

JAN 7 1975

S-0006/DR

MEMORANDUM FOR THE SECRETARY OF DEFENSE  
THE DEPUTY SECRETARY OF DEFENSE  
THE CHAIRMAN, JOINT CHIEFS OF STAFF  
ASSISTANT CHIEF OF STAFF FOR INTELLIGENCE,  
DEPARTMENT OF THE ARMY  
DIRECTOR OF NAVAL INTELLIGENCE  
ASSISTANT CHIEF OF STAFF, INTELLIGENCE,  
DEPARTMENT OF THE AIR FORCE  
DIRECTOR OF INTELLIGENCE, U. S. MARINE CORPS

SUBJECT: Soviet Defense Burden (U)

1. (S) For over ten years the U. S. intelligence community has attempted to assess the burden of the Soviet defense effort through a direct-costing method. This is a complex, machine-assisted methodology which presumably applies to hardware, installations and units. Soviet R&D is not amenable to this method, so it is derived from attempts to identify that portion of Soviet "science" budgets which should be tagged as going for military purposes. The above is over-simplified, but basically describes the scheme.
2. (S) Over the years, I have had grave doubts that this method hit anywhere near the mark as a measure of defense burden on the Soviet economy. The end results of applying this methodology to the problem have simply not been credible. Even perfunctory inspection convinces a sensible man that the figures are far too low. For instance, the CIA input to NIE 11-4-72 showed that for the years 1960 to 1972, the Soviets had increased military expenditures at the average rate of 1½ per cent per annum. During that period the Soviets deployed their 1,600 ICBMs (in six different models, not counting variants); deployed over 7,000 SAM launchers (SA-2, -3, -5); put an ABM defense around Moscow; deployed a vast radar system, including Hen House; re-equipped their air forces with Fishbeds (A through K models), Fitters, Flagons, Firebars, Brewers, Fiddlers, Blinders, and Foxbats; deployed a modern surface navy and an SLBM force; replaced most of their tanks and APCs with new models; developed and launched a large number of military space support systems. This is only a partial list, but enough to deny on inspection a mere 1½ per cent per annum increase in Soviet military expenditures over those years. After a DIA refusal to buy,

C: M: Director, DIA

T: 202-325-3700 E: DIA.DIRECTOR@CIA.GOV

Approved For Release 2004/06/29 : CIA-RDP83M00171R001100010013-1

the costers went back to the drawing board and produced new figures indicating a 2.5 per cent per annum average increase. The new figures derived primarily from an attempt to account for inflation. My fundamental problem with the method was not solved. (The new figures demonstrated that the method could be manipulated to produce more palatable results.)

3. (S) As of now, the direct-costing approach yields these CIA-reported basic figures (see enclosure 1):

Current ruble defense budget	26B
Current "dollar" defense budget	80B
Percentage of GNP	6 per cent

In a summary of these results recently released by CIA (see attached), these figures have been nudged upward to 93 billion dollars (about 8 per cent of GNP) on the basis of "possible error" in the methodology. This admission of error to the low side in the methodology is encouraging. My argument is no longer with the view that the method has produced the most credible estimates, but with the probable margin of error in the results. The protagonists of direct costing implicitly admit to an error of about 16 per cent; I maintain that the error is much larger.

4. (S) In recent months, evidence has accumulated supporting the existence of a much larger error in the methodology as it 25X1 applies to burden:



c. Research of Soviet literature by Colonel Odom (recently returned attache from Moscow) turned up the following statement from a fairly well-known Soviet economist in a book:

"The classics of Marxism and Leninism in the theory of manufacture removed themselves from the manufacture of military hardware. In our tense times, when the expenditures for the preparation for war achieve 20 per cent in peace time and the expenditures during the war period reach 60-70 per cent of the national revenues, and when these tremendous expenditures cause a very substantial influence on the manufacture on all combined and industrial relations on all, sharp economic and political consequences result from it, there appears an objective necessity to consider and analyze the connections and interdependences of the production of military hardware with the manufacture of products of I and II subdivisions."

(G. S. Kravchenko, Economics of the USSR in World War II, Moscow, 1970.)

Of course, one may quibble about whether "national revenues" are equivalent to "GNP." I submit that this is as close to GNP as a Soviet economist can get.

5. (S) In sum, while I believe that while pressure on analysts to produce more realistic estimates of Soviet defense burden is having some effect, the estimates remain too low to be credible.



2 Enclosures  
1. CIA National  
Intel Draft, USSR  
Budget Analysis

DANIEL O. GRAHAM  
Lieutenant General, USA  
Director



## DEFENSE INTELLIGENCE AGENCY

WASHINGTON, D.C. 20301

Approved For Release 2004/06/29 : CIA-RDP83M00171R001100010013-1

C-0019/DR

1 FEB 1986

MEMORANDUM FOR DI AND DE

SUBJECT: "Costing"

Outlined below is my basic position on this matter. I expect either to be persuaded that I am wrong or that I be supported in these views in interagency forums and papers. Thus far it is neither one way or the other in this Agency. I do not wish to be arbitrary, but I insist that it will be one way or the other and soon. If analysts and/or estimators wish to challenge these views, they must come forward with their arguments now or get aboard.

1. Direct costing has usable validity when applied to discrete areas of inquiry.

a. Hardware acquisition where inventory data are reasonably attainable. ICBMs and tanks, yes; gas masks and conventional warheads for FROGs, no. Even in the most valid areas, however, the margins of error are large because of the inherent difficulty of judging Soviet efficiency. This is essentially what the ever present "ruble-dollar ratio" arguments are all about.

b. Certain military construction costs.

2. As we move away from these areas of inquiry, where our basic physical data and factors are reasonably good, into the areas of O&M, personnel costs, consumables, training, war reserves, medical support and the like, there is a sharp increase in probability of gross error.

3. Additional problems derive from hidden military costs, such as:

- The reservist program
- Pre-induction training
- Civil defense, including the persistent costs of industry dispersal

Approved For Release 2004/06/29 : CIA-RDP83M00171R001100010013-1  
DECEMBER 1986

- The costs of military "skimming the cream" in industry in general
- The "civil" sector support in transportation, communications, etc.

4. R&D costs which are not derivable from direct costing and which are in large part not divisible into military versus civil components.

For the above reasons, aggregated figures for Soviet military expenditures, whether expressed in dollars or rubles, (although dollars are worse), are not of sufficient validity for use in national or departmental planning or decision-making. Indications from other sources that the aggregated costs presented by CIA are off by as much as 100 per cent cannot be dismissed out of hand. There is nothing in the direct costing methodology which gives me more confidence in a 30 billion ruble total Soviet budget than a 50-plus billion ruble budget.



DANIEL O. GRAHAM  
Lieutenant General, USA  
Director

CONFIDENTIAL

To		Initial	Info	Action	Adv. Cy
✓ Dr. Hall	act		✓		
LCOL Cade		DGC			
CWO2 Sharkey					
VADM Rectanus					
Mr. Slack(Acting)					
Mr. Curts(Acting)					
Mr. Goulder					
Mr. Albrecht					
Mr. Henderson					
Mr. Steeg					
Action Required					
Prepare reply for				signature	
Reply direct					
Appropriate action					
File/retention					
Provide comments/assessment/recommendations for Dr. Hall					
Coordinate with:					

### Remarks

Gen Graham's comments  
on CIA memo re Soviet  
Defense expenditures.

DJC

39

1 May 75

**SECRET**

SECRETARY OF DEFENSE ROUTING SLIP		ACT COPY TO	INFO COPY TO	TO	ACT COPY TO	INFO COPY TO
TO						
	SECRETARY OF DEFENSE			ASD (Public Affairs)		
	DEPUTY SECRETARY OF DEFENSE			GENERAL COUNSEL		
	THE SPECIAL ASSISTANT			DIR, TACCS		
	SECRETARY OF THE ARMY			ATSD (Atomic Energy)		
	SECRETARY OF THE NAVY			ASST TO SEC DEF & DEP SEC DEF		
	SECRETARY OF THE AIR FORCE			DEF ADV RES PROJ AGENCY		
	CHAIRMAN, JOINT CHIEFS OF STAFF			DEFENSE CIVIL PREPAREDNESS AGENCY		
	DIR OF DEF RESEARCH AND ENGINEERING			DEFENSE COMMUNICATIONS AGENCY		
	ASD (Comptroller)			DEFENSE CONTRACT AUDIT AGENCY		
	DASD (Administration)			DEFENSE INTELLIGENCE AGENCY		
	ASD (Health and Environment)			DEFENSE MAPPING AGENCY		
	ASD (Installations and Logistics)			DEFENSE NUCLEAR AGENCY		
	ASD (Intelligence) <i>DR HALL</i>			DEFENSE SECURITY ASSISTANCE AGENCY		
	ASD (International Security Affairs)			DEFENSE SUPPLY AGENCY		
	ASD (Legislative Affairs)			NATIONAL SECURITY AGENCY		
	ASD (Manpower and Reserve Affairs)					
	ASD (Program Analysis and Evaluation)					

## ACTION REQUIRED

PREP OF REPLY FOR SEC OF DEF SIGNATURE	INFORMATION AND RETENTION
PREP OF REPLY FOR DEP SEC OF DEF SIGNATURE	COMMENTS AND/OR RECOMMENDATION
REPLY DIRECT (Fwd cy of reply for Sec of Def records)	COORDINATE REPLY WITH
APPROPRIATE ACTION	

## REMARKS

**EYES ONLY  
SENSITIVE  
NO FORN**

**SECRET**

(This form is unclassified when separated from classified documents)

THIS IS AN -

 ACTION COPY ADVANCE ACTION COPY INFORMATION COPY

ACTION DUE NOT LATER THAN

ROUTING DATE

OSD CONTROL NUMBER

1307